

Function 050: National Defense

The House Republican budget includes \$392.7 billion for all national defense appropriated programs for 2003, the same level as provided by the President's budget.⁶ This function includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy (DOE), and miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation.

Including both mandatory and appropriated funding, the House Republican budget provides a total of \$393.8 billion for 2003 for national security. The total level is \$516 million more than the President's budget because the House Republican budget includes funding for a mandatory initiative known as concurrent receipt (see discussion at the end of this section).

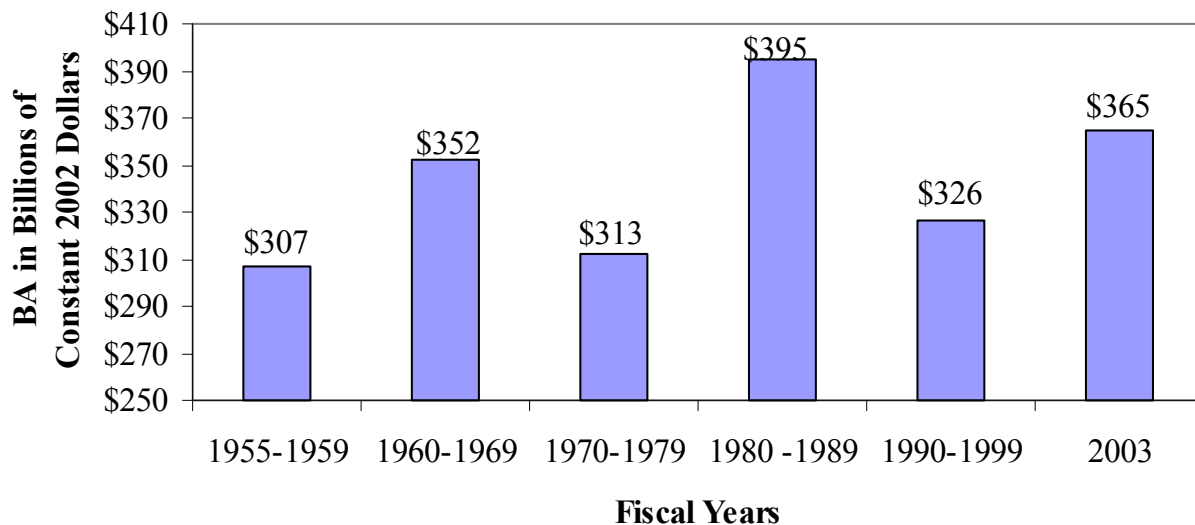
- ***The \$10 Billion War on Terrorism Reserve*** — Like the President's budget, the House Republican budget includes a \$10 billion reserve for 2003 for as yet unspecified needs related to the war on terrorism. However, section 201 of the resolution does not permit this reserve to be used for any other purpose except "activities to respond to or protect against acts or threatened acts of terrorism." Thus, the allocation to the Appropriations Committee will not include the \$10 billion reserve. Rather, the Chairman of the House Budget Committee shall raise the allocation to the Appropriations Committee by up to \$10 billion if and when the Appropriations Committee reports a bill that meets the anti-terrorism requirements of section 201.
- ***Substantial Increase for Defense*** — The budget resolution increases funding for appropriated national security activities by \$45.2 billion (13.0 percent) over the 2002 enacted level. This level is \$35.9 billion (10.1 percent) more than CBO's estimate of the level needed to maintain constant purchasing power. By 2007, the resolution increases national security funding to \$464.4 billion, which is \$69.2 billion (17.5 percent) more than CBO's estimate of the level needed to maintain constant purchasing power.⁷

⁶The President's budget also displays \$396.1 billion in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for civilian employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

⁷These comparisons make no adjustment for accrual accounting for the Tricare-for-Life military retiree program that is mandated by current law and is distinct from the accrual issue discussed elsewhere in this report. If the non-programmatic portion of the Tricare-for-Life accrual is excluded from the comparisons, the 2003 Republican budgets are \$43.1 billion (12.4 percent) more than the 2002 enacted level, and by 2007, the Republican budgets for national defense would be 15.3 percent more than CBO's estimate of the level needed to maintain constant purchasing power at the 2002 level. For further background information on the Tricare-for-Life accrual accounting issue, see the revised analysis of the President's budget dated March 4 on the House Budget Committee Democratic web site.

- ***Historical Perspective on Department of Defense Budget*** — Measured in constant 2002 dollars to account for inflation, the \$45.2 billion increase is the largest year-to-year increase for national defense since 1982.⁸ Even if the \$10 billion antiterrorism reserve for 2003 is excluded, it is the largest increase since 1983 (again measured in 2002 constant dollars to account for inflation).

2003 DOD Budget and Average DOD Budgets of Decades Past

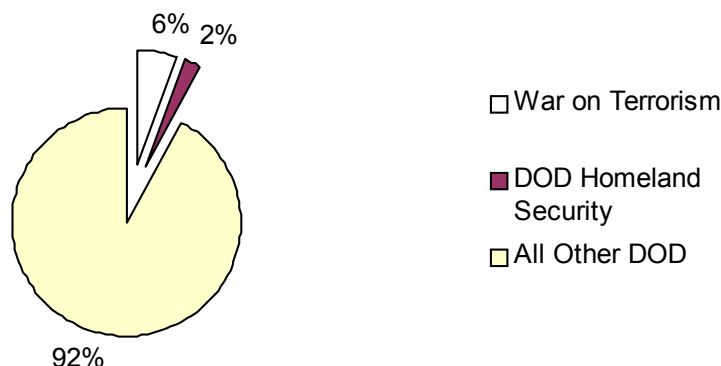


The chart above compares the 2003 DOD budget with the historical average DOD budget of the 1950's, the 1960's, the 1970's, the 1980's, and the 1990's.⁹ (Note: the 2003 DOD budget becomes \$365 billion when converted to constant 2002 dollars and the non-programmatic accounting change discussed in the footnote on the previous page is excluded.) As this chart indicates, the 2003 budget is higher than the average DOD budget of any of the last five decades except the 1980's, and is 92 percent of the average of that decade. Simply put, the 2003 DOD budget is large by any recent historical standard.

⁸Constant dollars calculated using deflators from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002. The DOD level in the House Republican budget is assumed to equal the President's budget.

⁹The 1950's average uses only the five years of 1955 - 1959 because 2002 constant dollar deflators were not available for prior years from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002.

The 2003 DOD Budget: The Shares for the War on Terrorism and Homeland Security



- The War on Terrorism and Homeland Security as a Percentage of the DoD Budget*** — According to information provided by DOD, the President's budget includes a total of \$22.2 billion for the war on terrorism for 2003, an increase of \$11.7 billion over the 2002 enacted level. The Administration also estimates that the 2003 DOD budget includes \$7.8 billion for homeland security, an increase of \$3.0 billion over the 2002 enacted level. Thus, only \$30.0 billion (the total of \$22.2 billion and \$7.8 billion) is directly related to the war on terrorism and homeland security, which is only 7.6 percent of the 2003 DOD budget. The pie chart above graphically illustrates how much of the DOD budget is not related to either the war on terrorism or homeland security.

Summary of DOD Funding for the War on Terrorism and Homeland Security (Budget Authority in Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>Increase</u>
War on Terrorism	10.5	22.2	11.7
DOD Share of Homeland Security	<u>4.8</u>	<u>7.8</u>	<u>3.0</u>
Total, Anti-terrorism/Homeland Security	15.3	30.0	14.7

Moreover, of the \$45.2 billion increase, only \$14.7 billion — about one-third — is directly related to the war on terrorism and homeland security (the \$14.7 billion is the total of the \$11.7 billion increase for the war on terrorism and the \$3.0 billion increase for DOD homeland security). See *Homeland Security* for a broader review of homeland security and the 2003 budget.

Funding for Military Retiree Health Care Left Out of Future Budgets

The House Republican budget provides the same level of funding for defense for 2003 as the President's budget, but it omits funding for health care for non-Medicare-eligible military retirees (normally those under age 65). By doing so, the House Republican budget provides \$6.0 billion less for 2004 than the President requests for national defense, and this cut gradually increases in following years for a total cumulative cut of \$26.5 billion over the 2004 - 2007 period.

As explained in detail below, this cut is due to the House Republican budget's rejection of the President's proposal to make the cost of health care for military retirees under the age of 65 mandatory beginning in 2004. Since providing health care for military retirees is required by law, it is likely that these cuts will be restored and that the on-budget deficits in the House Republican budget will increase by commensurate amounts. (See *Overview* and *Creative Accounting* for discussion of why the House Republican budget understates the amount of on-budget deficits and uses the Social Security surplus to fund routine governmental programs.)

- ***The President's Proposal for Under-65 Health Care*** — Beginning in 2004, the President's budget proposes making the cost of health care for non-Medicare eligible military retirees (normally those under age 65) a mandatory part of the federal budget in function 550 (Health) rather than part of the DoD budget in Function 050, as has historically been the case. This would mean that the cost of providing health care for these under-65 retirees would no longer have to be authorized and appropriated by Congress on an annual basis.

The President's budget also proposes to account for the future liability of under-65 military retiree health care costs for current military personnel by requiring accrual accounting to accompany the conversion of these costs from discretionary to mandatory spending. While the DoD discretionary budget would rise to pay for the accrual costs, there would also be savings because the discretionary DoD budget no longer would have to pay for the health care costs of the under-65 military retirees. The amounts of savings for the discretionary budget are estimated by CBO to be as follows:

Cost Avoidance in Department of Defense by Moving Under 65 Health Care to Mandatory (Budget Authority in Billions of Dollars)

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Cumulative Total</u>
5.979	6.413	6.831	7.244	26.467

- ***The House Republican Budget*** — The House Republican budget rejects the President's proposed accrual accounting change, and does not include any funding in Function 550 for under-65 military retiree health care. This means that funding for health care for these retirees must be provided by the discretionary DoD budget, but the House Republican budget does not increase discretionary funding to accommodate this extra cost. In other words, the discretionary level for defense in the House Republican budget is actually \$6.0 billion less in 2004 and a total of \$26.5 billion less over the 2004 - 2007 period than what is needed to meet the President's request for defense and pay for the health care costs of military retirees under age 65.

**House Republican Budget Does Not
Fund Under-65 Military Retiree Health Care**
(Budget Authority in Billions of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
House Republican Budget				
National Defense Discretionary	400.5	421.5	442.5	464.4
Under-65 Retiree Health Care	0.0	0.0	0.0	0.0
Total	400.5	421.5	442.5	464.4
President's Budget				
National Defense Discretionary	400.5	421.5	442.5	464.4
Under-65 Retiree Health Care	6.0	6.4	6.4	7.2
Total	406.5	427.9	448.9	471.7
House Republicans Below President	-6.0	-6.4	-6.4	-7.2

- ***The Tricare-For-Life Program is Unaffected*** — The Tricare-For-Life program is already established by law and affects only Medicare-eligible (normally age 65 and older) military retirees. The House Republican budget has no impact on this program and provides full funding for both the Function 050 DoD discretionary accrual payments and benefit spending in Function 550. The President's proposal for under-65 military retiree health care costs is a separate and distinct issue from Tricare-for-Life.

Concurrent Receipt

Certain military personnel qualify for both military retired pay and veterans disability compensation. Current law requires that military pensions be reduced, dollar for dollar, by the amount of VA disability compensation received. Proposals to end this reduction, or to allow concurrent receipt of both benefits, are very costly although they have garnered bipartisan support in Congress.

The House Republican budget includes a proposal to address the concurrent receipt issue, and the funding for this proposal is shown in this function. Since this issue is also of interest to the veterans'

community, the concurrent receipt proposal is also discussed in *Function 700 (Veterans Benefits and Services)* of this document.

- **“Special Compensation” in Current Law** — Current law provides a *de facto* concurrent receipt for severely disabled military retirees, known as “special compensation.” To receive special compensation, military retirees must receive a disability rating of 60 percent or higher from the VA within four years of retiring from military service. The amount of the special compensation is linked to the VA disability rating. The table below shows the amounts of special compensation in 2002 for each VA disability rating, and also shows the increases scheduled to occur under current law.

Monthly Payments Authorized Under Special Compensation					
Military Retirees with VA Disability Rating of	60%	70%	80%	90%	100%
in 2002	\$50	\$100	\$100	\$200	\$300
increased on January 1, 2003 to			\$125	\$225	\$325
increased on October 1, 2004 to		\$125	\$150	\$250	\$350

The House Republican budget permanently lifts the four-year limitation on the disability rating and increases special payments by two and a half times current law amounts in 2003. In 2004, the House Republican budget ends special payments and begins to phase in concurrent receipt for veterans with 60 percent disability and higher. In 2004, the budget allows 20 percent concurrent receipt of benefits for veterans who are 60 percent or more disabled. In 2005, the percentage would rise to 40 percent; in 2006, 75 percent; and in 2007, full concurrent receipt would be allowed for veterans with a disability rating of 60 percent or higher. The House Republican budget provides \$516 million for concurrent receipt in 2003, and \$5.8 billion over five years.

The House Republican budget is consistent with preliminary CBO scoring of the particular policy described above, but is well short of the \$18.3 billion CBO believes is necessary over 2003 to 2007 to allow all military retirees with any VA disability rating to receive full concurrent receipt beginning in 2003. The House Republican budget prohibits the Armed Services Committee from exceeding the first-year allocation of \$516 million or the five-year total of \$5.8 billion in the House Republican budget, but the Committee may adopt a policy different than the one assumed in the resolution.